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Contact: Fred Sainz  
858-442-8914

## FACT SHEET

### FY09 FINANCIAL YEAR FINANCIAL OUTLOOK

## SANDERS TO PROPOSE UNPRECEDENTED \$146 MILLION IN FY09 TO ADDRESS CITY'S DEFERRED MAINTENANCE AND DEBT

### *FUNDS CRITICAL TO CITY'S CONTINUED RECOVERY, FINANCIAL STABILITY*

Mayor Sanders today released the FY09 update to the City's Financial Year Financial Outlook (FYFO), the document that now imposes real discipline in the City's budgeting process. As part of his continuing goal to return the City to fiscal stability, the Mayor dedicates an unprecedented \$146 million to eight significant areas either chronically under-funded or ignored altogether in the past. The Mayor intends to finance an additional \$77.5 million for a total investment of \$223.4 million in FY09. During FY08, the Mayor, with the Council's unanimous concurrence, dedicated \$102 million to these areas.

Funding for Eight Significant Areas			
	FY08 Budget		FY09 Projected
"ARC Plus" <sup>1</sup>	\$	27.3	\$ 9.7
Unappropriated Reserve	\$	3.3	\$ 7.0
Deferred Maintenance <sup>2</sup>	\$	13.6	\$ 29.7
OPEB	\$	25.0	\$ 50.0
Storm Water Runoff Compliance	\$	18.0	\$ 29.5
ADA Compliance	\$	10.0	\$ 10.0
Workers' Compensation Fund	\$	-	\$ 5.0
Public Liabilities Fund	\$	5.0	\$ 5.0
<b>SUBTOTAL</b>	<b>\$</b>	<b>102.2</b>	<b>\$ 145.9</b>
Financed Capital Projects	\$	24.8	\$ 77.5
<b>TOTAL</b>	<b>\$</b>	<b>127.0</b>	<b>\$ 223.4</b>
<sup>1</sup> The ARC Plus payment represents the amount required to eliminate negative amortization to pay down the City's unfunded liability. The \$9.7 million amount beginning in FY2009 along with the amortization schedule approved by the SDCERS Board achieves this objective. <sup>2</sup> Fiscal year 2009-2013 projection includes debt services expenditure for bond issuances. CIP fiscal year 2008: \$24.8M Streets & Storm Drains CIP fiscal year 2009: \$52.5M Streets & Storm Drains and \$25M Facilities			

## FUNDING THE CITY'S DEFERRED MAINTENANCE NEEDS

	FY08	FY09
<b>Total</b>	\$38.4 Million	\$107.2 Million <sup>1</sup>
<b>Streets and Storm Drains</b>	\$33.1 Million Cash: \$8.3 Million Financing: \$24.8 Million	\$75.4 Million <sup>1</sup> Cash: \$22.9 Million <sup>1</sup> Financing: \$52.5 Million
<b>Facilities</b>	\$5.3 Million Cash: \$5.3 Million Financing: \$0.0 Million	\$31.8 Million Cash: \$6.8 Million Financing: \$25.0 Million

<sup>1</sup>This proposal includes \$5.4 million for the interest on bond financing.

As a direct result of neglect, the City is thought to have a \$800-900 million backlog of deferred maintenance. To address this troubling issue, the Mayor will significantly increase the funds spent on deferred maintenance and capital improvements from \$38 million during FY08 to \$107 million during FY09, a 179% jump. The budget for these projects was \$2.3 million when the Mayor took office during FY06, representing a 4,467% increase.

- Streets and Storm Drains: When compared to FY08, the Mayor's FY09 funding proposal represents a 127% funding increase. When compared to FY06 (\$2.3 million), the Mayor's plan to dedicate \$70 million represents a 3,112% increase.
- Facilities: When compared to FY08, the Mayor's FY09 funding proposal represents a 500% funding increase. No funds were provided for these needs by previous administrations during the budget year the Mayor took office.

The plans to dedicate \$781 million to deferred maintenance and capital improvements over the course of the next 6 years.

## PENSION CONTRIBUTION

FY 08	FY 09
\$27.3 Million	\$9.7 Million

The City's FY08 ARC Plus payment to SDCERS was intended to begin to pay down the principle on our pension obligation, a concept known as "no negative amortization." Now that the Pension System has adopted a 20 year amortization schedule, the City's ARC Plus commitment will be naturally reduced as it will be built into the ARC number the City receives. The \$9.7 million number is a subset of the project \$165 million ARC intended to achieve no negative amortization.

### **CREATING A TRUST FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)**

FY 08	FY 09
\$25 Million	\$50 Million

Instead of making a separate pay-as-you-go payment and a payment to pre-fund the retiree healthcare liability, the City will make one payment of \$50 million in FY09 to the CalPERS Trust Fund.

This entire amount will be contributed to the Trust Fund so that the City can receive the benefit of higher interest earnings. Approximately \$27 million will be dedicated to the ARC in FY09. Next year, the City will begin paying the entire OPEC ARC estimated to be \$75 million per year.

### **BUILDING UP UNALLOCATED RESERVES**

FY 08	FY 09
\$3.3 Million	\$7.0 Million

As recommended by the Mayor and adopted by the City Council, the City's General Fund Reserve Policy sets a funding goal of 6.5 % for FY09 and 8% by FY12. The FY09 FYFO recommends a contribution of \$7 million so that the City can achieve the target funding level.

Healthy reserve funds help insulate the City from periodic swings in the economy and the demands that may arise from emergencies. Adequate reserves also strengthen the City's position with credit rating agencies and may help lower the City's cost to borrow money.

### **PROTECTING THE ENVIRONMENT: STORM WATER POLLUTION PREVENTION**

FY 08	FY 09
\$18 Million	\$29.5 Million

The Mayor is committed to protecting our environment from storm water pollution. To that end, he will dedicate an additional \$11.5 million during FY09 (a 64% increase) to these efforts.

### **MEETING OUR REQUIREMENTS UNDER THE AMERICANS WITH DISABILITIES ACT**

FY 08	FY 09
\$10 Million	\$10 Million

Mayor Sanders has restored the City's commitment to meeting the requirements of the American's with Disabilities Act. Prior to the Mayor's time in office, the City of San Diego did not provide virtually any funding for meeting those requirements. During FY08, the Mayor augmented the \$2.3 million in CDBG funding traditionally allocated for this need by including an additional \$10 million in the City's budget for ADA projects. The new FYFO recommends another \$10 million contribution for ADA projects be included in the FY 2009 budget.

**GROWING WORKERS' COMPENSATION FUND RESERVES**

FY 08	FY 09
\$0	\$5 Million

It is prudent to have a 50% funded ratio for this category of reserves. The City currently has \$161 million in filed claims with \$20 million in the bank. Toward this end, the Mayor is proposing that \$5 million be dedicated during FY09 as a start. Over the ensuing four years, the Mayor is recommending an additional \$10 million per year.

**ACHIEVING PUBLIC LIABILITIES FUND GOALS**

FY 08	FY 09
\$5 Million	\$5 Million

Similar to the Workers' Compensation Fund Reserve, it is prudent to have a 50% funded ratio for this category of reserves. The City currently has \$114 million in filed claims with \$5 million in the bank. Toward this end, the Mayor is proposing that an additional \$5 million be dedicated during FY09. Over the ensuing four years, the Mayor is recommending \$35 million for this purpose.

**CONTINUED REFORMS CRITICAL TO CLOSING THE BUDGET GAP**

The City's financial stability requires the continued funding of the eight areas described above. The Mayor will deliver balanced budgets each year. To do that, the Mayor, with the cooperation of the City Council, will continue to institute aggressive reforms to close the budget gaps identified in the FYFO. As a result of those reforms, enormous progress has been made in the past year to close the previously larger budget gaps. That hard work and dedication to reform efforts will have to continue.